MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BAC4644 – ADVANCED TAXATION

(All sections / Groups)

26 OCTOBER 2017
9.00 am – 12.00pm
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 10 (TEN) pages (excluding the cover page) with 5 Questions only.

2. Attempt **ALL** questions. The distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet.

QUESTION 1(10 MARKS)

a) Goods and Services Tax (GST) is a consumption tax based on value-added concept. Payment of tax is made in stages by intermediaries in the production and distribution process. GST return must be submitted to the Royal Malaysian Customs (RMC) office not later than the last day of the following month after the end of the taxable period.

Required:

Briefly explain the taxable period.

(2 marks)

b) Win Teik Sdn. Bhd. (Win Teik), a wholesaler, sells shawls (taxable goods) to Aladin Sdn. Bhd. (Aladin) for RM10,000 exclusive GST. Aladin sells the shawls to its customers for a total of RM21,200 (inclusive GST).

Note: Both Win Teik and Aladin are taxable persons and shawl is a standard rated supply.

Required:

i) Compute the output and input tax for the above transactions.

(2 marks)

ii) Compute total GST to be remitted to the Royal Malaysian Customs Department (RMCD) for the above transactions.

(2 marks)

iii) Explain GST implication to Win Teik, Aladin and the end consumers.

(2 marks)

c) Julie should have registered for GST on 1 Apr 2015. On 5 April 2015, she supplied services to Kate for RM1,000 without charging GST. Kate is also registered for GST and makes standard supplies.

How much output tax is payable on this supply and who should pay it?

(2 marks)

[Total: 10 marks]

QUESTION 2 (20 MARKS)

a) Grand Holdings Sdn. Bhd. ('the company') is an unlisted local investment holding company. Its income is derived mainly from fixed deposits, dividends and rent. The company invested RM600,000 on a shopping mall lot; and another RM1.5 million and RM800,000 respectively in two listed companies that pay single tier dividends. During the year, the company sold an investment and made a gain of RM85,000.

For the year ended 30 June 2016, the company furnished the following statement of income:

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	RM	RM
Gross income		
Fixed deposit interest		18,000
Rent - shopping mall		100,000
Dividends (single tier)		
Investment 1	140,000	
Investment 2	50,000	190,000
Gains from realisation of investment		85,000
Total gross income		393,000
Less: Expenses		
Directors 'remuneration	46,611	
Staff salary	27,967	
Accounting and secretarial	9,324	
Audit fees	18.644	
Interest charges (loan for investments)	37,289	
Printing and stationery	1,864	
Management expenses	26,101	
Office rent	46,532	
Quit rent and assessment (shopping mall)	1,864	
Entertainment	2,796	
Depreciation	5,158	(224,150)
Net profit		168,850

Required:

Compute the chargeable income of Grand Holdings Sdn. Bhd. for the year of assessment 2016 under the Income Tax Act 1967 (as amended).

(10 marks)

b) The Kampong Jambu Farmer's Co-operative Society, 'the society', was officially registered in the year 2003 to cater for the agricultural needs of the farmers in the Jambu District, Selangor.

The farmers mainly rear goats and cattle for the local market. The society closes its accounts on 30 June each year. For the year ended 30 June 2016, the society produced the following account:

Kampong Jambu Co-Operative Society Accounts for the year ended 30 June 2016

	RM	RM
Sales		481,950
Less: Cost of goods sold		(100,856)
Gross profit		381,094
Less: Expenses		
Revenue expenses	252,198	
Depreciation	1,642	
Donation	24,386	(278,226)
		Continued...

Audited net profit		102,868
Less: Interest on member's savings	2,217	
Dividends paid to members	7,390	
Contribution to co-op trust fund	8,868	
Transfer to statutory reserve fund	20,691	(39,166)
Balance of profits		63,702

The society is entitled to a capital allowance of RM5,400 for the year of assessment 2016. The members' fund as at 1 July 2015 was RM1,008,409, as per the account below:

Member's fund	RM
Paid up share capital	738,973
Subscribed capital	32,843
Share premium account	2,463
Reserve from revaluation of land	120,000
Statutory reserve fund	45,159
Balance of profit and loss appropriation account b/f	68,971
Members' fund as at 1.7.2015	1,008,409

The donation was made to an approved charitable institution.

Required:

Compute the chargeable income of Kampung Jambu Farmer's Co-operative Society for the year of assessment 2016.

(10 marks)
[Total: 20 marks]

QUESTION 3 (20 MARKS)

a) MD Shipping Lines Plc is a non-resident shipping company ('the company') and carries on the business of transporting cargo by sea. For the year ended 30 June 2016, it earned RM1,054,350 gross income from cargos loaded on in Malaysia.

Malaysia has a double tax agreement with the country where the company is resident and is entitled to a double tax relief of 50% on the income tax charged i.e. to be allowed by the country which first taxes the income derived therefrom.

For the year of assessment, the company produced a certificate from the revenue authorities of its country (which acceptable by the Director General of the Inland Revenue of Malaysia) that certified the following information:

Acceptable Ratio Certificate
MD Shipping Lines Plc
Period: 1 July 2015 to 30 June 2016

	RM
Gross world shipping income	4,217,400
Adjusted world shipping income	2,811,600
World capital allowance	800,000
Gross shipping income derived from Malaysia	1,054,350

Continued...

For the year of assessment 2016, the company had made a donation of RM4,500 to a charitable institution that is approved for the purposes of the Income Tax Act 1967 (as amended).

Required:

Compute the tax payable of MD Shipping Lines Plc for the year of assessment 2016 under the:
i) Five Percent (5%) Method (4 marks)
ii) Acceptable Ratio Certificate Method. (4 marks)

b) Excellent Insurance Malaysia Berhad is a Malaysian resident insurance company. The following information has been extracted from its accounts for the year ended 31 December 2016:

	Life Insurance		General Insurance
	LF	SF	
	RM'000	RM'000	RM'000
Gross income			
Gross premiums	15,000	350	9,000
Dividend income (Malaysian single tier)	250	0	650
Interest income	350	0	100
Rental income	150	0	150
Gross proceeds from sale of shares	2,000	1,000	900
Gross proceeds from sale of building	1,000	0	0
Less: Expenses			
Net claims incurred	0	0	5,000
Commissions	200	0	100
Management expenses	750	0	550
Cost of shares sold	2,550	500	750
Cost of building sold	950	0	0
Reserve for unexpired risks as at December 31, 2015	0	0	1,500

LF= Life Fund; SF= Shareholders' Fund

Other information (General Insurance):

		Marine, aviation & transit policies	Fire, motor & other policies
	Particulars	RM'000	RM'000
1.	Gross premiums	5,500	3,500
	Reinsurance premiums in Malaysia	500	500
	Reinsurance premiums outside Malaysia	400	0
			Continued...

2.	Reserve for unexpired risks as at December 31,2016	1,000	500

3. The company allowed 50% of the reserve for marine, aviation and transit policies. But the reserve for fire, motor and other policies is made on the basis of actuarial computation under FRS 202 that is consistently used and approved under section 60(9)(b) of the Income Tax Act 1967 (as amended).

4. Reserve for unexpired risks as at 31 December 2015 i.e. brought forward for tax purposes was RM1,500,000.

5. Capital allowances for the year of assessment 2016 in respect of life insurance business and general insurance business amounted to RM900,000 and RM750,000 respectively.

5. Unabsorbed business loss brought forward in respect of the general insurance business amounted to RM30,000.

Required:

Compute the tax payable by Excellent Insurance Malaysia Berhad for the year of assessment 2016.

Note: The income tax rate for Life Fund is 8% and for the Shareholder's Fund and the General Insurance is 24%. (12 marks)

[Total 20 marks]

QUESTION 4 (25 MARKS)

(a) Mr. Roger Lim carried on the business of dealing in construction hardware. He had a wife and four children. He died in 2012 of a heart attack, a few months after the birth of his last child. Before his death he wrote a will creating a trust, which among other things, provided as follows:

(i) The wife would be the trustee of the trust and will also continue to manage the hardware business after his death.

(ii) The four children would be the beneficiaries and they, together with the wife, would be provided as follows:

a. The first child would be entitled to one-quarter of the trust distributable income that would be paid at the discretion of the trustee;
b. The second and the third child would each be entitled to a one-half of the balance of the distributable income.
c. The trustee is to make an accumulation of RM20,000 for the last child till the child attains the age of 21 years.

In accordance with the terms of the trust, Mrs. Lim made the following payments or arrangements, for the year ended 31 December 2016 as follows:

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No.	Recipients	Amount (RM)
1	Annuity to herself	24,000
2	First child	52,582
3	Second child	50,000
4	Third child	50,000
5	Fourth child (sum to be accumulated)	20,000
	Total	196,582

The trust received income from investments during the year ended 31 December 2016. The details of which, according to Mrs. Lim, are as follows:

No.	Particulars	Amount (RM)
1	Rent from a property in Malaysia	14,978
2	Interest from a fixed deposit in a local bank	4,087
3	Dividends (Malaysia)(single tier)	6,796
4	Dividends (Singapore)(remitted in 2016)	9,672

The trust deed was challenged by Mrs. Lim's sister-in law in 2016 and this matter was taken to court. However on the advice of the lawyer, the issue was settled out of court and the following expenses were incurred:

(i) Legal fees to obtain professional advice: RM3,745
(ii) Out of court settlement to the sister-in law: RM50,000

Mrs. Lim made a cash donation of RM30,000 under the name of the trust to an approved charitable body and another donation of food packets worth RM2,000 to an approved religious body during a festive occasion in remembrance of her late husband. Mrs. Lim also charged in the books of the business, a fee of RM20,000 for administering the trust. These expenses (legal fees, out of court settlement costs, donations and trustee fee) are included under 'Expenses' in the business account. The balance of the expenses, other than those mentioned above, are incurred wholly and exclusively for the purposes of the business as per the auditor's report.

Construction hardware business	**RM**
Gross income from business	521,042
Less: Expenses	(223,183)
Net profit	297,859

The auditor has also confirmed that for the current year of assessment the trust will be claiming a capital allowance of RM44,637 and a balancing allowance of RM22,318. The trust has a balancing charge of RM14,816 arising from the disposal of the van used for the business and met with an accident in the early part of the year. The trust business did not do too well in 2015 and has an unabsorbed loss of RM5,617 and an unabsorbed

Continued...

capital allowance of RM47,480 brought forward to the current year. The trust distributable income for the year ended 31 December 2016, before accumulation, was RM230,326.

Required:
With reference to the Income Tax Act 1967 (as amended), compute the chargeable income of the trust, and the beneficiary's share of the trust total income for the year of assessment 2016.
Note:
Assume that the Director General of Inland Revenue has allowed the application of section 61(2) of the Income Tax Act 1967 (as amended) to the trust income.

(15 marks)

(b) Mr. Peter Lim was a Malaysian resident carrying on three businesses – two in Malaysia and another one in Singapore. He passed away on 30 September 2016 in an accident. He had not prepared a will. The businesses he carried on closed the accounts to 31 December each year. For the year ended 31 December 2016, the trading results according to the accountant, were as follows:

Business		RM
Business 1 (Malaysia)	Adjusted income	130,680
Business 2 (Malaysia)	Adjusted loss	52,837
Business 3 (Singapore)	Adjusted income	21,790

Business 2 ceased operations in June 2016. Mr. Peter Lim's other income consists of a rental source from a property in Kuala Lumpur, a single tier dividend from a public listed company, as well as interest from a fixed deposit in a local Malaysian bank. The details of these other income are as follows:

Income	**RM**
Rental (year ended 31 Dec 2016)	26,136
Dividend (Malaysian single tier paid in October 2016)	10,249
Interest (received in May 2016)	4,329

Mr. Peter Lim left behind a wife and a child aged 10 years old in January 2016. At the time of his death, Mr. Peter Lim was domiciled in Malaysia. The administrator is Mr. Leong, his close friend and a practicing accountant. He administered the estate till the financial year end 31 December 2016 and made an annuity payment to the wife of RM12,000 before the estate was wound up. Mrs Lim has no sources of income. Mr. Leong then liquidated the estate and made a distribution to the beneficiaries as follows:

Mrs. Lim, wife of the deceased	RM290,000
Child of the deceased	RM290,000

Required:

Compute the chargeable income for the year of assessment 2016, in respect of:

Continued...

(i) Mr. Peter Lim , assuming that only the wife and child relief of RM4,000 and RM2,000 respectively were claimed by him;
(ii) The estate of Mr. Peter Lim (deceased).

(10 marks)
[Total 25 marks]

QUESTION 5 (25 MARKS)

Your manager met with the group chief financial officer of the SuperGaya group of companies. Extracts from the record of their meeting and an email from your manager are set out below.

Extract from the record of the meeting

The SuperGaya Group

The group comprises SuperGaya Sdn. Bhd., the holding company, and two wholly-owned subsidiaries, Super Sdn. Bhd. and Gaya Sdn. Bhd. All three companies make up their accounts annually to 30 June. They run profitable businesses as follows:

(i)	SuperGaya Sdn. Bhd.:	Retail stores for groceries and household goods
(ii)	Super Sdn. Bhd.:	Distribution of a brand of beverage
(iii)	Gaya Sdn. Bhd.:	Budget hotel

Raising finance

The group wants to expand, and estimates that the expansion will require about RM200 million of additional capital.

Expansion exercise

The expansion plans entail the following:

- Creating a new group holding company, NewCo, which will wholly own all three operating companies, as well as some other investments. NewCo may occasionally render management services to its subsidiaries. NewCo will become the listed vehicle on Bursa Malaysia after the IPO.
- Opening ten more outlets for SuperGaya Sdn. Bhd. throughout Malaysia.
- Adding more product lines to optimise the distribution network of Super Sdn. Bhd.
- Upgrading the budget hotel owned by Gaya Sdn. Bhd. to service suites for business travellers.

The expansion will involve the following capital expenditure:

- Setting up ten more outlets including renovations, fittings and equipment.
- Securing distribution rights to more product lines and acquiring additional delivery vans.
- Upgrading the hotel to service suites requiring new furniture, fittings and equipment, and renovations.

Continued ...

Extract from an email from your manager

I trust you have read the extract of the record of the meeting I passed to you yesterday.

In preparation for my next meeting with the SuperGaya group, please prepare the following:

(a) Raising capital of RM200 million

An explanation of the tax implications of raising capital by way of:

- a loan to be taken from a commercial bank by each user company;
- loans from shareholders who are also directors; and
- additional equity from existing shareholders.

Among other things, ensure that you explain the tax treatment of the incidental expenses of raising the capital, the interest expense on the amount borrowed and the potential control over the interest rate applicable.

(b) Mode of financing the fixed asset acquisitions

An explanation of the tax implications of using:

- operating leases;
- finance leases (which are not deemed sales); and
- outright purchase.

You should approach this from the perspective of:

- eligibility for capital allowances (CA): how much and how many years to deplete the CA claim;
- eligibility for a tax deduction in arriving at adjusted income; and
- maintenance costs.

Required:

Carry out the work required as requested in the email from your manager.

(i) Raising capital of RM200 million. (7 marks)
(ii) Mode of financing the fixed asset acquisitions. (8 marks)

(c) Goodwrite Sdn. Bhd. ('the company') is a locally incorporated resident company that is engaged in the manufacture of ball pen. The company is 60% owned by an Indian firm, which also holds 30% of the shares in Hang Seng Pen Company Limited, a company incorporated and resident in China.

The ball pen is manufactured under license from the Indian firm and wholly exported to China to its related company, Hang Seng Pen Company Limited which retails the pen throughout

Continued ...

China. The pens are sold to Hang Seng Pen at RM4.50 per unit. A similar pen is manufactured by the company's competitor, SEA Pen Sdn. Bhd. and exported to its subsidiary company in China for RM6.50 a unit.

The Inland Revenue Board has issued a letter to Goodwrite Sdn. Bhd. seeking an explanation as to the pricing difference between the company's ball pen and the price of the competitor.

Required:

(i) Explain the possible issue the Inland Revenue Board is looking at; and

(ii) What are the factors that could be attributed to Goodwrite Sdn. Bhd.'s pricing of the ball pen exported to China in the context of transfer pricing which may be acceptable by the income tax authority?

(10 marks)

[Total 25 MARKS]

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